

Message from the Governor

January 23, 2008

To the People of Massachusetts:

It has been little more than one year since Lieutenant Governor Tim Murray and I took office, with a mandate to deliver change that makes your lives better, our Commonwealth stronger, and our collective future more secure.

I am very proud of what we have accomplished over the past year to fulfill that mandate.

- We have rolled out the welcome mat for job creation throughout Massachusetts – streamlining our permitting system, strengthening our state sales force, fully opening our doors to stem cell research, and securing investment and jobs from cutting-edge clean energy and life sciences companies. Through these and other efforts, Massachusetts added over 20,000 new jobs in 2007 – improving our national ranking in job creation from 49th under the previous administration to 15th this year. We are well on the way to my goal of creating 100,000 new jobs.
- We have begun the next phase of education reform in Massachusetts. Last year marked not only the strongest investment in education in the history of the Commonwealth but also the launch of the Commonwealth Readiness Project – drawing from the expertise of educational, business and government leaders to chart the path forward towards a world-class, lifelong system of learning and skills training that positions our people and our state to compete and succeed in a global, information-age economy.
- We have ended the era of neglect of our public colleges and universities, instead treating them as essential educational and economic assets for Massachusetts. This is reflected in the \$2 billion bond bill we have filed, authorizing new building or renovation projects at every one of the Commonwealth's community and state colleges and each of the University of Massachusetts' campuses.
- We are building a stronger partnership between state and local government, to improve the delivery of the core services that the people of Massachusetts depend on *and* provide the property tax relief they need and deserve. Our Municipal Partnership Act is a major step forward towards achieving these goals, allowing cities and towns to reduce their costs by providing health coverage to their employees through the state's health insurance plan.
- We have brought new purpose to keeping our streets and communities safe – investing in new cops on the beat and new efforts to give young people constructive alternatives to gangs and drugs.
- We are fulfilling the promise of our state's historic health reform law. Over 300,000 people are newly enrolled in health insurance, offering them preventive care that can help keep them well – and providing financial protection in the event they get sick.
- We have reclaimed the mantle of environmental leadership, joining the Regional Greenhouse Gas Initiative and approving environmental review for the first offshore wind farm in the country.

These and other accomplishments are building a stronger future for Massachusetts – sending a signal that we are open for business and job creation; that even though we top the nation in educational test scores, we will not stand pat; that we will have public colleges as renowned and respected as our world-class private universities; and that we are determined to make our Commonwealth a place in which today's and tomorrow's families can truly afford to live.

This is not the work of our Administration alone. It is in so many respects the product of a strong partnership with members of our state Legislature. Together, we enacted a 2008 budget and other bills that have laid many of these foundations of change. It is also a direct result of your own personal engagement in shaping our collective future – from reaching out to the Administration and the Legislature with your hopes and ideas to rolling up your sleeves to actually do the hard work of building a better, stronger Massachusetts.

Still, as we all surely recognize, the work of change is far from complete. We have laid the foundations but must now proceed forward on the path towards shared prosperity. This is the task and mission of our Administration's fiscal year 2009 budget.

This was not an easy budget to build. We recognize that state government is an essential agent of positive change. There is a pressing need for state investments – among other things, to strengthen our education system so our young people can compete and succeed in a global, innovation economy; to help put local government on a more sustainable fiscal footing; and to address long-neglected public needs like repairing and modernizing our crumbling roads, bridges and public transportation.

Yet the mechanism for making these investments, our state budget, remains structurally out of balance. We faced a projected budget gap for 2009 of well over a billion dollars – the difference between how much it would cost simply to continue *existing* state programs and expected tax revenues.

This gap has been a recurring story for state budgets for a long time. It is the product of decades of failure to invest in the foundations of economic growth and job creation in Massachusetts; too great a reliance on one-time resources to balance budgets instead of sustainable revenues; and the fact that there remains much work to be done to reform state government and make it more efficient and cost-effective.

We pursued a *balanced* approach to balancing this budget – making careful choices so that we could address our state's highest priorities and also maintain fiscal responsibility. The result is a budget that is a fiscally *and* socially responsible blueprint for moving our state forward on the path of change.

The budget includes targeted investments that are critical to promoting economic growth and opportunity in Massachusetts.

Because offering our young people a world-class education is fundamental to their individual economic success and to the Commonwealth's global competitiveness, we treat education as a priority in this budget.

We provide a more than 200 percent increase in funding to make steady progress towards *universal* pre-kindergarten education, so our youngest children can start school ready to learn

and achieve. For the second consecutive year, we have doubled funding to extend the school day, offering over 8,900 more students the additional classroom time they need to meet ever-rising expectations. In Massachusetts, we are *serious* about no child being left behind – and so we have increased funding to help underperforming schools bolster student achievement and to provide individual students the extra help they need to succeed.

We recognize that the economic future of our state is inextricably tied to the vitality of our cities and towns. Communities that offer great schools, high-quality services and infrastructure, safe streets and neighborhoods, and an affordable cost of living are magnets for business growth and a talented workforce.

To realize this vision of thriving, affordable communities, we must help our cities and towns provide high-quality services – such as police, fire and schools – while relieving pressure on local property taxes. Even in challenging fiscal times, we cannot afford to balance the state budget on the backs of municipalities and those who pay property taxes.

In this spirit, Local Aid under our budget grows by 5.12 percent over last year's budget, including a \$67 million off-budget increase for school construction and \$223 million to bring Chapter 70 education aid to unprecedented funding levels.

We are protecting cities and towns from what would otherwise be an anticipated \$124 million deficit in the State Lottery Fund, plugging this hole with license fees the state would receive from my proposal to create three destination resort-style casinos. Though not included in the budget, under my gaming legislation, additional license fees from these new casinos would provide \$88 million in direct property tax relief to Massachusetts homeowners through a new income tax credit program and \$88 million for local transportation and infrastructure improvements in fiscal year 2009.

The main purpose of my gaming proposal is to create good-paying jobs throughout our state, specifically, 20,000 permanent new jobs in the hospitality industry and tens of thousands of additional construction jobs. At the same time, it is clear that bringing destination resort casinos to the Commonwealth would yield hundreds of millions of dollars in new revenues for the state – funding much-needed property tax relief and transportation improvements that will improve our quality of life *and* make it more affordable to live here.

My gaming proposal is part of a broader strategy to create good-paying jobs with good benefits throughout Massachusetts. This budget continues to implement that strategy.

Similar to the course charted with the Legislature thus far, we are proposing to reserve a portion of budget surpluses for strategic investments in our economy through the Bay State Competitiveness Trust Fund. We have slated the first \$25 million in the Fund for investments in life sciences – consistent with the plan I unveiled last year to make Massachusetts the global leader in this field. Investing in life sciences promises an enormous return for our state, in the form of hundreds of thousands of new jobs and also new cures and treatments for disease. We also continue to invest in expedited permitting and support for small businesses, to create a more business-friendly environment in Massachusetts.

Public safety also remains a priority for our Administration, as safe streets and neighborhoods are essential to making Massachusetts a great place to grow a business and raise a family.

We are doubling last year's investment in additional police officers and providing the highest ever funding for Shannon Grants to prevent gang violence. We are also increasing our investments in youth violence prevention grants and summer jobs, recognizing that the best way to prevent crime is to give young people the opportunity for something better.

These targeted investments are essential to the future of our state. We cannot afford to ignore the needs they address. Investing in job creation, excellent education and stronger communities will not only create economic growth and opportunity but also generate sustainable revenues for the services our families and businesses need. Making these targeted, strategic investments *now* – in getting our kids off to a good start in school; offering them continued opportunities for learning and success; and creating jobs for them to fill with their talents – also saves us the much higher price tag of neglect: a less productive workforce; more need for taxpayer-funded social services; and the considerable net costs of having people in prison instead of in jobs. The cost of inaction is far too steep.

We make these targeted, essential investments in our future without sacrificing fiscal responsibility.

We have held the line on total spending, keeping it in line with revenue growth. First and foremost, we looked to close our budget gap through savings in state programs – finding \$479 million in gross savings to balance the budget and pay for targeted, needed investments.

These savings include over \$300 million of gross savings in our state's Medicaid program. Health costs consume 45 percent of our state's budget and are growing at unsustainable rates. We must find creative ways to contain these costs, so we can continue to offer and indeed expand health coverage and also invest in *other* key state priorities.

We achieve savings in MassHealth by paying fair and efficient rates to providers based on their actual costs, promoting better care management for people with chronic diseases, and pursuing other strategies to offer higher-quality, more affordable care. However, we recognize that much more needs to be done to control health care costs. We look forward to working with the Legislature and others to take additional, bold steps to make health care more affordable – to match our historic progress towards expanding access to insurance coverage to nearly every citizen of Commonwealth.

We have not shrunk from making tough choices. We are proposing changing state employee health insurance contributions from a system based on the date a person was hired to a more rational system based on salary levels and affordability. While some state employees' contributions to their health care will stay the same or actually decline, many others will see an increase in their required contributions. This change will save \$51 million this year and better position the Commonwealth to be able to continue to provide comprehensive health insurance to state workers. We know this change will be difficult for some, but it is important to the long-term strength of our budget and the Commonwealth.

We are also holding nearly 190 line-items to zero growth in spending, requiring these programs to find creative ways to deal with increasing costs and demands. Moreover, we are eliminating \$40 million in earmarks from last year's budget that, however well-intentioned, are not consistent with the mission of the state agency through which they were funded or otherwise affordable in this challenging budget year.

Our budget contains other reforms as well, aimed at making state government more responsive and accountable to taxpayers and better able to deliver the services they need. For instance, we are making the seven remaining county sheriffs into state sheriffs. This change benefits these sheriffs by making their funding more predictable and less bureaucratic. It helps cities and towns by laying the groundwork for eliminating “maintenance of effort” payments they currently make towards these sheriffs’ budgets. And it promotes more transparent and efficient government, including improving financial oversight and leveraging savings in health care costs.

Savings, reforms and efficiencies like these lie at the heart of our balanced approach to balancing the budget and moving Massachusetts forward on the path of change. At the same time, achieving that balance also requires looking for careful, responsible ways to generate additional revenues to pay for targeted investments in our future.

Our budget generates significant new revenues by improving enforcement of our existing tax laws. For example, we propose making changes to the way in which the Department of Revenue (DOR) collects existing taxes on tobacco sales, which will enable them to better target their collection and enforcement efforts. The Attorney General will also coordinate a statewide effort with DOR and other state agencies to bring new focus and visibility to preventing the misclassification of employees. Misclassification of employees results in hundreds of millions of dollars of lost tax revenue and denies workers health insurance and other benefits to which they are entitled. We will encourage companies to comply with the law – and take action against those who do not.

Similar to what we proposed last year, we also propose closing unintended corporate tax loopholes that have allowed some businesses to avoid Massachusetts taxes by shifting income to lower-tax jurisdictions and claiming different statuses on their federal and Massachusetts tax returns. Closing these loopholes will improve tax fairness and modernize our tax code, while generating \$297 million in new revenues in fiscal year 2009 to help pay for public investments in education, affordable housing and transportation which businesses have themselves demanded.

In response to thoughtful dialogue over the past year on corporate tax reform, we are also proposing a reduction in the Massachusetts corporate tax rate from 9.5 percent to 8.3 percent over three years starting in 2010. These lower rates, eventually a 13 percent tax reduction, will help Massachusetts businesses – and particularly smaller, in-state businesses – compete in our global economy.

This combination of closing corporate tax loopholes and gradually lowering our corporate tax rate reflects the recommendations of the Study Commission on Corporate Taxation, whose members were appointed by the Administration, the Speaker of the House of Representatives, and the President of the Senate. Together, we believe they will make our corporate tax system more equitable and our state more economically competitive.

Measures like these allow us to balance the budget and make targeted investments in our future without having to use an excessive amount of reserves. While we were unable in one year to reverse an established pattern of using one-time revenue sources, our budget proposes and implements a formula for the responsible and measured use of reserves to protect against harmful cuts in the event of lower-than-average revenue growth. This careful

approach guards against over-reliance on reserves to pay for program expansions. With this limited use of reserves, we will still have \$1.85 billion in our state's Rainy Day Fund, leaving it as one of the largest of its kind in the nation.

We fully recognize that some of these savings and revenue ideas involve tough choices – or entail significant change – and are likely to invoke some opposition. We file this budget ready to engage on these issues. If our ideas have flaws, we are willing to fix them. If there are better ideas on how to square up to our state's challenges in a fiscally responsible way, we will be open to them.

But we will insist on *action*. The time is *now* to do what is needed to set Massachusetts on the path to a secure, prosperous and fiscally sustainable future. The cost of inaction is far too high.

We appreciate the input that we have received in constructing this budget from legislators, advocates, experts and the public. To help you see and understand the choices we have made – and to empower you to participate in the budget process – we have built on last year's progress in making the budget more transparent and accessible. This includes putting more information in our printed and on-line budgets, and highlighting transfers between state funds that may not be technically counted in the budget's bottom line but still involve significant amounts of state spending.

We hope you use this information to get engaged, stay involved, and hold *us* accountable for building a better future for Massachusetts.

A handwritten signature in dark ink, appearing to read "Deval Patrick", with a large, stylized initial "D" and a flourish at the end.

Deval L. Patrick